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Helping You Protect Your Family.....Today and Tomorrow

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KEYTLAW, L.L.C.

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Top Three Estate Planning Mistakes

Ben Franklin once said that, "In this world, nothing is certain but death and taxes." A major goal of estate planning is to minimize the effects of both of these inevitable phenomena on your assets. You can achieve this by consulting a skilled financial professional, and creating a successful estate plan with clearly defined objectives.

MISTAKE NO. 2: NOT PLANNING FOR DISABILITY

Another mistake in estate planning is the failure to plan for incapacity. What will happen if you become disabled? Who will take care of you? Who'll pay the bills? How will spending for the disability affect the goal of preserving wealth for your



It's important to be on the lookout for the three most common mistakes that are made when a plan is created. Once you know what they are, you can make sure that your plan doesn't get caught in these traps.

MISTAKE NO. 1: NOT FOCUSING ON RECIPIENTS

The first error that's frequently made is the failure to focus on how the assets that you leave will impact the recipients. Make sure that you have a loud voice in what your heirs will inherit and how that process will occur. After you die, it's too late to be heard.

healthy spouse or children? Should you purchase long term care insurance? By discussing these issues with your financial professional now, you may save a small (or large) fortune later.

MISTAKE NO. 3: WILL IT OR WON'T IT?

A third common mistake that people make is thinking that their financial ducks are all in a row because they have wills. Others feel that, because everything is held jointly, a will isn't necessary. In each case, they're wrong, and are unwittingly giving control of their assets to a probate judge.

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Suspicious Tax Shelters Dupe the Wealthy

It's a common assumption that if you're savvy enough to become a billionaire, you're savvy enough to have good people handle your money. Time and time again, however, there are stories of wealthy people being lured unknowingly into fraudulent schemes in order to avoid paying taxes.

RICHES AND ROGUERY IN TAMPA

One of the wealthiest men in Tampa is Howard Jenkins, who gained his riches through the Publix Supermarket chain. As a man with considerable assets, he always kept his eyes open for ways to reduce his tax bite.

In 1998, he received a cold call from life insurance agent, Gary Kornman, who convinced him to meet to discuss estate planning strategies. Even though Jenkins knew nothing about Mr. Kornman, he was impressed with his ideas. Clearly he was the ultimate salesman.

GIMME SHELTER

According to Jenkins, "Kornman boasted that he was a master at finding



legitimate loopholes in the Internal Revenue Code" in the form of tax shelters. This one was too juicy to refuse. The strategy would allow Jenkins to sell \$300 million in Publix stock, and 'legally' avoid paying any capital gains taxes on the profits. But if it sounds too good to be true...

KNOCK, KNOCK, IT'S THE IRS

Allegedly, the type of shelter that Kornman was selling was similar to the "Son of Boss" shelters, which were popular in the late 1990s and 2000. In this scheme, taxpayers basically create a paper loss, which offsets the gain from a stock sale. The IRS took action against that particular scheme in 2004, and gave taxpayers an opportunity to

settle before any legal action was taken against them. Ultimately, 85 percent of taxpayers chose to settle.

FIGHTING BACK

Luckily for Jenkins, he never claimed the tax shelter on his tax return, so he never actually did anything illegal. He's suing Kornman for return of a \$15 million fee that he paid him for his advice.

LESSONS LEARNED

If you're investigating tax shelters, be careful whom you deal with. Always have a trusted financial professional review the documents to ensure their legality. If you're enticed by a cold caller, take a little time to check the person's credibility before you warm up to him. Understand the details of the tax shelter. (Jenkins claimed that the deal was so complex, he didn't understand it all.)

If it could happen to a billionaire with a team of advisors managing his money, it could happen to anybody—including you. ■

Tax Break for Inherited 401(k)s in 2007



It's a good feeling to leave a substantial amount of the income that you've accumulated over the years in your 401(k) plan to the people who mean the most to you. But it's frustrating if that inheritance also includes a tremendous tax hit, forcing your heirs to surrender a huge chunk of your money to the government.

In the past, if you inherited an employer-sponsored retirement plan—like a 401(k) or profit-sharing plan—from someone other than a spouse, you were looking at a potential tax headache. Most plans required that you withdraw the funds either immediately, or within a specified short period of time, which could cause significant tax consequences. After all, if you wanted to leave your hard-earned money to Uncle Sam, you would've named him as a beneficiary!

NEW AND IMPROVED LAW

Thanks to new legislation passed by Congress, beginning January 1, 2007, anyone who inherits an employer-sponsored retirement plan will be able to transfer the funds directly into an inherited IRA account. This will enable your heir to take advantage of the stretch

IRA strategy, and spread withdrawals over the course of his or her life. This longer period of withdrawal will result in reduced taxes.

This is especially beneficial if you'd like to leave an inheritance to your grandchildren or another heir who's young. In the past, such beneficiaries would have been responsible to pay a very large amount in taxes. However, under the new rules, your young heirs will have the opportunity to stretch distributions out over a very long period—perhaps some 60 or 70 years—depending on their ages.

Youth has always had its advantages; now, add this new and improved provision to the list. Thanks to Congress, it pays to be lucky enough to be an heir, no matter what your age. ■

Tax Time No Longer Taxing with E-Filing

When T.S. Eliot wrote, “April is the cruelest month,” he wasn’t talking about taxes...but he could’ve been. Between organizing your papers, making timely IRA contributions, and finding funds to pay the Tax Man, everyone can relate to April’s unpleasantness.

Now, however, April is having a reprieve, thanks to the popularity of e-filing. In general, it’s faster, safer, and enables you to receive your



refund promptly. Plus, it’s the only way to receive a confirmation that the IRS has received your return.

Some people even like doing taxes. In a March 2006 survey of 1,000 taxpayers by Accenture, a majority of respondents said that they would rather do their taxes than spend 10 hours in the car with three children, or take a driving test. Add that fact to the ease of e-filing, and tax time no longer has to be a taxing experience. ■

Interesting Facts from Tax Year 2005.

- More than half of all taxpayers (53 percent) filed electronically
- 16.7 million people filed from their home computers
- Approximately 928,000 people paid their taxes by credit card
- During April, 2005, there were 111 million visits to the IRS website
- Almost 70 percent of refunds were paid via direct deposit
- The average refund totaled \$2,237



Did You Know? Couples and Money



- 💰 2.3 million Americans were expected to marry in 2006¹
- 💰 The average wedding costs \$27,852¹
- 💰 Only 3 percent of brides expect to sign a pre-nuptial agreement¹
- 💰 A typical husband says the couple earns 5 percent more than the wife says²
- 💰 A typical wife says the family’s debts are \$500 more than the husband says²
- 💰 About 50 percent of first marriages end in divorce³
- 💰 Eight out of 10 divorced people remarry³
- 💰 Only 20 percent of remarried couples close their individual accounts and pool their money⁴
- 💰 60 percent of second marriages end in divorce³

Sources:

(1) Conde Naste American Wedding Study 2006, (2) The Journal of Socio-Economics, May 2003, (3) The U.S. Census Bureau, (4) Stepfamily Association.

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A will guarantees probate. Joint ownership may avoid probate when the first person dies. But what about a remarriage, where all the assets go to the new spouse or stepchildren, and none to the biological kids? Do you really want this? Have you even thought about it?

As Ben Franklin said, “An investment in knowledge pays the best interest.” Knowing what to look for while working in conjunction with your financial advisor and a skilled estate planning attorney will ensure a peaceful transition of assets to your heirs after you’ve made a peaceful transition from this world. And that’s in their best interest, and yours. ■

Valentine's Day: A Historic Perspective



T rue love blossoms every February 14th, when tradition dictates that you shower your loved ones with tokens of your affection, including lavish gifts, roses, and chocolates. Did you ever wonder how the tradition began?

Valentine's Day is rooted in a little bit of fact, and a lot of legend. The most prominent originates around 270 AD in the days of Emperor Claudius II. Valentine, a Roman Priest, rebelled against Claudius, who outlawed marriage because he believed that

single men made stronger soldiers than those with wives and children. An outraged Valentine continued to perform marriages in secret ceremonies. Upon discovery, Claudius sentenced him to death. While in prison, Valentine fell in love with the jailer's daughter. Before his execution, he sent her a love letter signed, appropriately, "From your Valentine."

February 14th was selected as St. Valentine's Day around 498 by Pope Gelasius, in an attempt to Christianize a Pagan holiday called Lupercalia, a fertility festival dedicated to Faunus, the Roman god of agriculture, which was celebrated on February 15th.

While Valentine may have sent the true first card, the oldest known Valentine on record was written by Charles, the Duke of Orleans, in 1415, during his imprisonment in the Tower of London. It can still be viewed at the British Library in London. The Greeting Card Association of America estimates that one billion cards are sent each year. And it will probably come as no surprise that a staggering 85 percent of all valentines are purchased by women. ♥

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BIOGRAPHICAL INFORMATION

Arizona estate planning attorney Richard Keyt prepares Wills, Trusts and simple and complex estate plans for Arizona residents on a fixed fee basis. Rick, a former partner in one of the largest law firms in Arizona, has practiced law in Arizona since 1980.

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